

OVERSIGHT BOARD
SUCCESSOR AGENCY
TO THE WEST HOLLYWOOD
COMMUNITY DEVELOPMENT COMMISSION

SEPTEMBER 18, 2013

SUBJECT: A RESOLUTION OF THE OVERSIGHT BOARD TO THE
SUCCESSOR AGENCY TO THE WEST HOLLYWOOD
COMMUNITY DEVELOPMENT COMMISSION,
AUTHORIZING THE SUCCESSOR AGENCY TO REFUND
CERTAIN OUTSTANDING TAX ALLOCATION OBLIGATIONS
PURSUANT TO ASSEMBLY BILLS X1 26 AND 1484

INITIATED BY: SUCCESSOR AGENCY

(David A. Wilson, Director of Finance & Technology Services) *DAW*
(John Leonard, Senior Management Analyst) *JPL*

STATEMENT ON THE SUBJECT:

This item recommends that the Oversight Board, adopt a resolution authorizing the Successor Agency to refinance the former Community Development Commission's 2003 redevelopment bonds, to achieve debt service savings.

RECOMMENDATIONS:

Approve Resolution No. 13-_____ "A RESOLUTION OF THE OVERSIGHT BOARD TO THE SUCCESSOR AGENCY TO THE WEST HOLLYWOOD COMMUNITY DEVELOPMENT COMMISSION, AUTHORIZING THE SUCCESSOR AGENCY TO REFUND CERTAIN OUTSTANDING TAX ALLOCATION OBLIGATIONS PURSUANT TO ASSEMBLY BILLS X1 26 AND 1484".

BACKGROUND ANALYSIS:

On February 1, 2012, pursuant to Assembly Bill x1 26 ("AB x1 26") all redevelopment agencies across the State were dissolved and successor agencies were established to wind-down their operations and obligations. AB x1 26 did not allow successor agencies to issue any new debt; however, the legislative language was unclear on whether a debt refinancing was considered a new debt issuance.

On June 27, 2012, a clean-up bill to AB x1 26 was enacted by the State Legislature ("AB 1484"). AB 1484 included provisions permitting successor agencies to refund (refinance) outstanding bonds or other obligations of a former redevelopment agency to achieve debt service savings. Since the enactment of AB 1484 several successor agencies have refinanced their existing

redevelopment bonds to achieve debt service savings and increase residual balance payments to taxing entities; additional refinancings are also underway.

Successor agencies can choose to refinance their bonds utilizing their own staff, underwriters, lawyers and consultants; however, the County of Los Angeles has developed the Redevelopment Bond Refunding Program (the "County Program") to assist successor agencies in this process. The County Program makes use of the State's Marks-Roos Bond Pooling Act to facilitate the pooling of successor agency refinancing bonds into larger issues that will be sold by the County of Los Angeles Redevelopment Refunding Authority ("County Authority") to investors.

The County Program was designed to pool the refinancing bonds, in order to allow them to be issued in an efficient and cost-effective manner while alleviating participating successor agencies of the administrative tasks that would be required of managing their own refinancing. The County and its financing team will assume responsibility for marketing the bonds, managing the ratings process, and coordinating the approval process with the State Department of Finance ("DOF"). Pursuant to AB 1484, DOF has up to 60 days to review the proposed refinancing once it has been approved by the Successor Agency to the West Hollywood Community Development Commission ("Successor Agency") and the Successor Agency's Oversight Board ("Oversight Board"). However, the County hopes to facilitate quicker approval.

The former West Hollywood Community Development Commission ("former CDC") issued \$11,500,000 of tax allocation bonds in 2003 to undertake various housing and non-housing projects in the East Side Redevelopment Project area. All of the proceeds from this bond issuance have been expended on projects. At this time, a principal amount of \$9,265,000 is outstanding on the 2003 RDA Bonds. Based on today's historically low interest rates, the County has calculated that the 2003 RDA Bonds could be refinanced to the same ending term (2033) and generate approximately \$388,000 in net present value ("NPV") debt service savings, or about 4.2% of the amount of the refinanced bonds. Typically, a minimum of 3% NPV savings is considered the threshold to justify pursuing a refinancing opportunity. Actual savings will depend on market conditions at the time of pricing and the final rating on the bonds. Debt service savings will be shared by all taxing entities, based on their share of the general 1% property tax levy.

The first issuance of pooled refunding bonds is expected in December 2013. If approved, the Successor Agency's bonds would be in this first issuance. The Successor Agency's legal costs related to this refinancing will be paid from the bond proceeds or placed on future Successor Agency ROPS. Once the refinancing is complete the County will manage all continuing disclosure obligations on behalf of the Successor Agency.

On July 11, 2013, the Oversight Board elected to participate in the County Program and directed the Successor Agency to commence the proposed refinancing. On September 16, 2013, the Successor Agency will consider adopting a resolution to authorize and approve the refinancing.

Los Angeles County Redevelopment Bond Refunding Program (the "County Program")

Los Angeles County has developed a redevelopment bond refunding program to assist redevelopment successor agencies located in the County in refinancing their outstanding indebtedness to generate debt service savings. The County Program offers an opportunity to secure savings in an efficient manner, with a more limited investment of City and Successor Agency resources than would otherwise be required. The County Program is designed to introduce a number of efficiencies, including a common financing team, support from County staff in certain administrative efforts including continuing disclosure, and the enhanced marketing afforded by larger bond issues.

The County has dedicated substantial resources to facilitate the County Program. Several experienced Finance staff and a Principal Deputy County Counsel have been assigned to support the County Program. In addition, the County has assembled a financing team consisting of bond counsel (Orrick, Herrington & Sutcliffe), underwriters (De La Rosa & Co. and Citigroup), a financial advisor (KNN Public Finance), and a fiscal consultant (HdL Coren & Cone) who have worked closely with the County to develop a financing plan and drafted the necessary documents to accommodate the refunding. The County Program also has the support of DOF, which must approve all refundings, and has been coordinating its efforts alongside the County.

The County Authority will purchase the 2003 Refunding Bonds from Successor Agency simultaneously with the sale of the County Authority Pooled Bonds to investors. Interest rates for the pooled County refunding bonds will be set at the time of issuance (purchase by investors), since the Successor Agency's refunding bonds will be incorporated into the pooled County refunding bonds, the interest rate for the Successor Agency bonds will also be set at the time of issuance. As part of the pooled refunding, the interest rate on the Successor Agency's refunding bonds will match that of the larger County refunding. To the extent that it is both feasible, and beneficial, the County refunding bonds will be broken into multiple series, and cities with similar credit ratings will be grouped together, to achieve the best interest rates. The current schedule for completing the refinancing is this December, provided that interest rates stay favorable.

Legal Documents

Bond counsel for the County Program, Orrick, Herrington & Sutcliffe, has prepared the necessary documents for the transaction, which are being

submitted for approval by a resolution of the Oversight Board. The Oversight Board is reviewing and approving the bond documents, however, the Successor Agency will be the entity required to execute the documents.

Oversight Board Resolution. This resolution approves all matters relating to the issuance and sale of the bonds by the Successor Agency (the “2003 Refunding Bonds”).

Indenture of Trust. The Indenture of Trust sets forth the terms of the 2003 Refunding Bonds (including the interest payments and redemption provisions, if any), the security provisions for the 2003 Refunding Bonds, the covenants of the Successor Agency to Bond owners and provisions relating to the holding and distribution of funds to repay the 2003 Refunding Bonds.

Escrow Agreement. The Escrow Agreement sets forth the terms for the early redemption of the bonds to be refinanced, including the deposit and investment of moneys to be held by the escrow bank and the terms for paying bonds prior to the redemption date and redeeming the bonds on the redemption date.

Local Obligation Purchase Contract. The Local Obligation Purchase Contract specifies the purchase price of the 2003 Refunding Bonds to be paid by the County Authority, the interest rates, maturity dates and principal amounts of each maturity of the 2003 Refunding Bonds, the date, time and place of the closing of the 2003 Refunding Bonds, the allocation of the expenses incurred in connection with the bond issue, the parties’ representations to and agreements with each other and the conditions which the Successor Agency must satisfy before the County Authority becomes obligated to purchase the 2003 Refunding Bonds.

Continuing Disclosure Agreement. Federal securities laws indirectly require issuers of bonds to disclose and annually update certain financial and operating information relevant to the security and repayment of bonds. The Continuing Disclosure Agreement contains the undertakings of the Successor Agency and the County Authority to provide the ongoing disclosure in the form of annual reports and event notices.

Trust Agreement. The Trust Agreement sets forth the terms of the bonds to be issued by the County Authority (the “Authority Bonds”), including the interest payments and redemption provisions, if any, the security provisions for the Authority Bonds, the covenants of the County Authority to Authority Bond owners and provisions relating to the holding and distribution of funds to repay the Authority Bonds.

Bond Purchase Agreement and Letter of Representations. The Bond Purchase Agreement specifies the purchase price of the Authority Bonds to be paid by the underwriters, the interest rates, maturity dates and principal amounts of each maturity of the Authority Bonds, the date, time and place of the closing of the Authority Bond issue, the allocation of the expenses incurred in connection

with the Authority Bond issue, the parties' representations to and agreements with each other and the conditions which the County Authority must satisfy before the underwriters become obligated to purchase the Authority Bonds. The Letter of Representations, a form of which is included in the Bond Purchase Agreement, provides certain representations and warranties that the Successor Agency will be providing to the County Authority and the underwriters.

Official Statement and Successor Agency Disclosure Appendix. The Official Statement (in its preliminary and final form) is used to provide information to investors and prospective investors about, among other things, the County Authority and the Authority Bonds. The Authority Bonds constitute securities for purposes of state and federal securities laws and, therefore, the offering and sale of the Authority Bonds through the Official Statement is subject to certain provisions of such laws, including, importantly, the anti-fraud laws. The Official Statement sets forth information about the terms of the Authority Bonds, the security for the Authority Bonds, the sources and uses of the proceeds of the Authority Bonds to be issued by the County Authority and the tax-exemption of interest on such Authority Bonds. The Successor Agency's disclosure appendix, which will be included as an appendix to the Official Statement, provides information as to the Successor Agency and the 2003 RDA Refunding Bonds, the applicable redevelopment plan and project area, the tax increment revenues and the documents under which the 2003 RDA Refunding Bonds are issued.

FISCAL IMPACT:

The \$388,000 in projected NPV debt service reduction from the refinancing of the 2003 RDA Bonds would increase the property tax revenue distributed to taxing entities through residual balance payments. Each taxing entities' share of the increased residual balance payments would be based on their share of the 1% general property tax levy.

ATTACHMENTS:

- 1) Oversight Board Resolution;
- 2) Third Supplement to Indenture;
- 3) Continuing Disclosure Agreement;
- 4) Escrow Agreement;
- 5) Local Obligation Purchase Contract;
- 6) Trust Agreement (for Series 2013 Authority Bonds);
- 7) Preliminary Official Statement (for Series 2013 Authority Bonds);
- 8) Appendix (including form of Successor Agency Disclosure as an Appendix to Preliminary Official Statement); and
- 9) Bond Purchase Agreement (for Series 2013 Authority Bonds), including Agency Letter of Representations and Agency Counsel Opinion.